



ACQUISITION AND  
TECHNOLOGY

## THE UNDER SECRETARY OF DEFENSE

3010 DEFENSE PENTAGON  
WASHINGTON, DC 20301-3010

MAY 25 2000

### MEMORANDUM FOR SERVICE ACQUISITION EXECUTIVES DIRECTORS OF THE DEFENSE AGENCIES

SUBJECT: Pilot Authority for Commercial Services

Section 814 of the National Defense Authorization Act for Fiscal Year 2000, P.L. 106-65, authorizes the Secretary of Defense to carry out a pilot program to treat procurements of commercial services as commercial items (attached). Further, it directs the Secretary to issue guidance to procurement officials to execute such contracts. The following categories of services are covered by the pilot authority: 1) utilities and housekeeping services, 2) education and training services, and 3) medical services. Responsibility for the operation and oversight of this program has been delegated to my office.

In accordance with Section 814 of P.L. 106-65, each organization (Service or Agency) is requested to select and conduct candidate commercial item procurement pilot programs within the stated categories. Particular emphasis should be placed on ensuring that negotiated prices for designated services, including prices negotiated without competition, are fair and reasonable. Each organization should ensure that a single item manager or contracting officer is responsible for entering into all contracts from a single contractor for commercial services.

The pilot authority shall commence immediately and extend through the end of Fiscal Year 2003. My office will submit a report to Congress within 90 days thereafter in accordance with the requirements of the program. In support of this, each participating organization should submit a separate report on the impact of their pilot program(s), due to my office no later than 60 days after termination of the pilot authority period. Each organization's report should address the impact on prices paid under contracts for commercial services, the quality and timeliness of the services provided under the pilot program contracts, and the extent to which competition was maintained. Price trend information used to assess the impact on prices paid should be collected and analyzed in accordance with existing policies.



As I stated in my April 5, 2000, policy memorandum on Performance-Based Service Acquisitions (PBSAs), services are becoming an increasingly significant component of what the Department buys, and we must ensure that we acquire them effectively and efficiently. The new PBSA policy requires that, in order to maximize performance, innovations and competition, often at lower cost, a minimum of 50 percent of all service acquisitions must be performance-based by 2005. This pilot program represents an important opportunity and is a natural compliment to the PBSA policy. As such, I strongly urge your participation.

Request the names of the selected pilot programs and overall points of contact be provided to Mr. Craig Curtis, Office of the Deputy Under Secretary of Defense (Acquisition Reform), (703) 697-6399, curtisc@acq.osd.mil, by June 30, 2000.



J. S. Gansler

Attachment:  
As stated

cc:  
DUSD(Installations)  
Dir, Defense Procurement  
Dir, Acquisition Resources and Analysis  
Dir, Washington Headquarters Services  
Dir, Defense Contract Management Agency  
Dep GC (A&L)

NATIONAL DEFENSE AUTHORIZATION ACT FOR FISCAL YEAR 2000

SEC. 814. PILOT PROGRAM FOR COMMERCIAL SERVICES.

(a) PROGRAM AUTHORIZED- The Secretary of Defense may carry out a pilot program to treat procurements of commercial services as procurements of commercial items.

(b) DESIGNATION OF PILOT PROGRAM CATEGORIES--The Secretary of Defense may designate the following categories of services as commercial services covered by the pilot program:

(1) Utilities and housekeeping services.

(2) Education and training services.

(3) Medical services.

(c) TREATMENT AS COMMERCIAL ITEMS- A Department of Defense contract for the procurement of commercial services designated by the Secretary for the pilot program shall be treated as a contract for the procurement of commercial items, as defined in section 4(12) of the Office of Federal Procurement Policy Act (41 U.S.C. 403(12)), if the source of the services provides similar services contemporaneously to the general public under terms and conditions similar to those offered to the Federal Government.

(d) GUIDANCE- Not later than 90 days after the date of the enactment of this Act, the Secretary shall issue guidance to procurement officials on contracting for commercial services under the pilot program. The guidance shall place particular emphasis on ensuring that negotiated prices for designated services, including prices negotiated without competition, are fair and reasonable.

(e) UNIFIED MANAGEMENT OF PROCUREMENTS- The Secretary of Defense shall develop and implement procedures to ensure that, whenever appropriate, a single item manager or contracting officer is responsible for entering into all contracts from a single contractor for commercial services under the pilot program.

(f) DURATION OF PILOT PROGRAM-(1) The pilot program shall begin on the date that the Secretary issues

the guidance required by subsection (d) and may continue for a period, not in excess of five years, that the Secretary shall establish.

(2) The pilot program shall cover Department of Defense contracts for the procurement of commercial services designated by the Secretary under subsection (b) that are awarded or modified during the period of the pilot program, regardless of whether the contracts are performed during the period.

(g) REPORT TO CONGRESS- (1) The Secretary shall submit to Congress a report on the impact of the pilot program on--

(A) prices paid by the Federal Government under contracts for commercial services covered by the pilot program;

(B) the quality and timeliness of the services provided under such contracts; and

(C) the extent of competition for such contracts.

(2) The Secretary shall submit the report--

(A) not later than 90 days after the end of the third full fiscal year for which the pilot program is in effect; or

(B) if the period established for the pilot program under subsection (f)(1) does not cover three full fiscal years, not later than 90 days after the end of the designated period.

(h) PRICE TREND ANALYSIS- The Secretary of Defense shall apply the procedures developed pursuant to section 803(c) of the Strom Thurmond National Defense Authorization Act for Fiscal Year 1999 (Public Law 105-261; 112 Stat. 2081; 10 U.S.C. 2306a note) to collect and analyze information on price trends for all services covered by the pilot program and for the services in such categories of services not covered by the pilot program to which the Secretary considers it appropriate to apply those procedures.